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Flexible approach on bank mergers a welcome move

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THE consolidation programme for the country's financial services industry, like all plans aimed at initiating a fundamental transformation, has drawn positive as well as negative feedback.

And like all big plans, even the best conceived ones, adjustments and finetuning are bound to be made as the process of implementation get under way, not least because circumstances change and new issues will arise.

In the case of the decision to merge the country's 58 existing financial institutions, when the announcement was first made by Bank Negara Malaysia, it did seem a bit rigid that there be only six core groups to emerge from the exercise, and this to be effected within a seven-month period.

In late July, Bank Negara had stunned the financial community by accelerating the consolidation of the industry and set key deadlines to ensure an orderly merger process which was to be wrapped up by next April. The cooperation of the entire industry was secured and the first deadline, September 30, for banks to sign merger memorandums of understanding (MOUs) was comfortably met.

However, the biggest of the challenges still lie ahead. And it is partly in recognition of this that the Government has indicated it is prepared to be more flexible with regards to the number of anchor banks, their selection, the partners involved as well as when the exercise should be completed.

There had been talk of disappointment among a number of banks for not being selected to serve as anchors, and to their credit they had continued to cooperate and had gone ahead to sign merger MOUs.

The stock market, ultra sensitive as it is, had seen share prices of certain banking stocks easing on uncertainties about the companies. But all this changed some two weeks ago, when Prime Minister Datuk Seri Dr Mahathir Mohamad was quoted in London as saying that the number "six" was an arbitrary one.

On Tuesday, the Prime Minister confirmed that indeed there can be "maybe more, maybe less" core banking groups, and the banks can work out the mergers themselves.

The important thing is that the industry has been galvanised to consolidate, which is a significant step forward considering previous calls had largely fallen on deaf ears, according to Dr Mahathir. And deadlines are fine, but not when they are pursued to the detriment of the industry.

Analysts are generally in support of the more flexible approach, but stressed that the process must continue to be closely monitored so as to avoid any backtracking.

"The central bank's role was to herd the banks towards mergers and consolidation and this has been achieved," Credit Suisse First Boston South-East Asian chief economist P.K. Basu said.

The new approach appears to be based on the fact that the next big hurdle in the merger process is funding as well as pricing.

"When small banks buy big ones, the ability to pay becomes an important issue," he said.

An industry observer agreed.

"Banks not selected as anchors may want to cash out completely and if they do not get the right price, or good value in their opinion, they can

contest and hold up the process," he said.

"It is better this way as it means allowing participants (bankers) to decide who they would like to merge with and to take into account the partners' respective strengths and weaknesses rather than being grouped together arbitrarily," SG Research vice-president Gan Kim Khoo said. However, the authorities must guard against the process losing momentum now that there is less pressure placed on the banks to merge. Worse, the entire programme could become stymied by bickerings among prospective partners over pricing.

On the part of the banks, they should appreciate the opportunity offered them to work things out among themselves, and not take advantage of the situation to scuttle the process in pursuit of their own agendas.

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